



**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**EAST BATON ROUGE COMMUNITY  
DEVELOPMENT ENTITY LLC**

**DECEMBER 31, 2010**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9/14/11

East Baton Rouge Community Development Entity LLC

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## INDEPENDENT AUDITORS' REPORT

To the Members  
East Baton Rouge Community Development Entity LLC

We have audited the accompanying balance sheet of East Baton Rouge Community Development Entity LLC as of December 31, 2010, and the related statements of operations, members' equity and cash flows for the period February 23, 2009 (inception) through December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Baton Rouge Community Development Entity LLC as of December 31, 2010, and the results of its operations, the changes in members' equity and its cash flows for the period February 23, 2009 (inception) through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As described in note 5, these financial statements have been reissued to reflect an error in the allocation of fees paid for transactional structuring services and asset management.

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2011, on our consideration of East Baton Rouge Community Development Entity LLC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over

financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

*Reznick Group, P.C.*

Baltimore, Maryland  
June 22, 2011

East Baton Rouge Community Development Entity LLC

BALANCE SHEET

December 31, 2010

ASSETS

Cash	\$ 18,192
Accounts receivable	3,168
Prepaid expense	76,900
Investment in limited liability company	<u>613</u>
Total assets	<u>\$ 98,873</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES	\$ -
CONTINGENCY	-
MEMBERS' EQUITY	<u>98,873</u>
Total liabilities and members' equity	<u>\$ 98,873</u>

See notes to financial statements

East Baton Rouge Community Development Entity LLC

STATEMENT OF OPERATIONS

Period February 23, 2009 (inception) through December 31, 2010

Operating income	
Fee income	\$ 549,000
Asset management fee income	3,168
Other income	10,000
Interest income	154
Income from investment in limited liabilities company	<u>3</u>
Total income	<u>562,325</u>
Operating expenses	
Asset management fee	3,100
Structuring fees	320,000
Professional fees	64,962
Success fee	61,000
Compliance fee	<u>15,000</u>
Total operating expenses	<u>464,062</u>
Net income	<u>\$ 98,263</u>

See notes to financial statements

East Baton Rouge Community Development Entity LLC

STATEMENT OF MEMBERS' EQUITY

Period February 23, 2009 (inception) through December 31, 2010

	East Baton Rouge Redevelopment Authority	City of Baton Rouge/ Parish of East Baton Rouge	Total
Contributions	\$ 610	\$ -	\$ 610
Net income	48,149	50,114	98,263
Balance, December 31, 2010	<u>\$ 48,759</u>	<u>\$ 50,114</u>	<u>\$ 98,873</u>

See notes to financial statements

East Baton Rouge Community Development Entity LLC

STATEMENT OF CASH FLOWS

Period February 23, 2009 (inception) through December 31, 2010

Cash flows from operating activities	
Net income	\$ 98,263
Adjustments to reconcile net income to net cash provided by operating activities	
Income from investment in limited liability company	(3)
Increase in assets	
Accounts receivable	(3,168)
Prepaid expense	(76,900)
Net cash provided by operating activities	<u>18,192</u>
Cash flows from investing activities	
Investment in limited liability company	<u>(610)</u>
Net cash used in investing activities	<u>(610)</u>
Cash flows from financing activities	
Contributions from members	<u>610</u>
Net cash provided by financing activities	<u>610</u>
NET INCREASE IN CASH	18,192
Cash, beginning	<u>-</u>
Cash, end	<u>\$ 18,192</u>

See notes to financial statements



East Baton Rouge Community Development Entity LLC

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

East Baton Rouge Community Development Entity LLC (the Company) was formed on February 23, 2009, under the laws of the State of Louisiana. The Company is a qualified Community Development Entity (CDE) that holds New Market Tax Credits (NMTC) allocation authority to be used for investment in Qualified Active Low Income Community Businesses (QALICB) pursuant to Section 45D of the Internal Revenue Code (IRC). The Company was granted a seventh round allocation of \$60,000,000 of NMTC authority from the U.S. Treasury's Community Development Financial Institutions Fund (CDFI Fund) under an Allocation Agreement dated October 30, 2009. In general, under Section 45D of the IRC, a qualified investor in a CDE can receive the NMTC to be used to reduce Federal taxes otherwise due in each year of a seven-year period.

Under the Company's Allocation Agreement with CDFI Fund, Redevelopment Authority Fund I, LLC (Fund I) has become an approved "Subsidiary Allocatee" of the Company. The Company is the managing member of the Subsidiary Allocatee. An Allocation Agreement places restrictions on the CDE's operations, including, but not limited to, a specific geographical area of the low-income communities the CDE must serve. The Company has been approved to serve low-income communities in East Baton Rouge Parish, Louisiana. As of December 31, 2010, the Company has allocated \$6,100,000 of its NMTC authority to Fund I.

In accordance with the Company's operating agreement, profits, losses and cash flows (subject to special allocations) are allocated 49% to East Baton Rouge Redevelopment Authority and 51% to the City of Baton Rouge/Parish of East Baton Rouge.

The Company shall continue in full force perpetually unless terminated pursuant to the operating agreement or law.

Income Taxes

The Company has elected to be treated as a pass-through entity for income tax purposes and, as such, is not subject to income taxes. Rather, all items of taxable income, deductions and tax credits are passed through to and are reported by its owners on their respective income tax returns, if applicable. The Company's federal tax status as a pass-through entity is based on its legal status as a limited liability company. Accordingly, the Company is not required to

East Baton Rouge Community Development Entity LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

take any tax positions in order to qualify as a pass-through entity. The Company is required to file and does file tax returns with the Internal Revenue Service and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes. For income tax purposes, the Company reports on a calendar year basis.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates.

Investment in Limited Liability Company

The Company accounts for its investment in the limited liability companies using the equity method of accounting. Under the equity method, the investment is recorded at cost, and increased or decreased by the Company's share of the limited liability companies' income or losses, and increased or decreased by the amount of any contributions made or distributions received. The Company holds a .01% membership interest in Fund I as of December 31, 2010.

Financial Accounting Standards Board (FASB) Statement No. 167 (FASB 167), *Amendments to FASB Interpretation No. 46(R)*, was issued on June 12, 2009. Since its issuance, the Accounting Standards Codification became effective September 15, 2009, and FASB 167 was superseded in December 2009 by FASB issued Accounting Standards Update 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* (ASU 2009-17). The guidance under ASU 2009-17 amends ASC 810, *Consolidations* (ASC 810) and more specifically ASC 810-10 (formerly FIN 46(R)), which addressed *Consolidation of VIE's*. ASU 2009-17 amends certain guidance in ASC 810-10 (formerly FIN 46(R)) for determining whether an entity is a variable interest entity (VIE). Determination of whether or not an entity is a VIE is based on the three criteria set forth in paragraphs 810-10-15-14 of ASU 2009-17.

East Baton Rouge Community Development Entity LLC  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Fund I is not considered a VIE as the Company is not expected to absorb any expected losses and is not the recipient of the expected benefits. The Company's investment represents its maximum exposure to loss.

Revenue Recognition

Fee income associated with the assignment of NMTC to its Subsidiary Allocatee is recognized when the Subsidiary Allocatee makes a qualified low-income community investment (QLICI) in a QALICB. Asset management fees are recognized when earned.

Financial Statement Presentation

The Company distinguishes operating revenue and expenses from nonoperating items. The operating revenue and expenses generally result from providing services in connection with the Company's ongoing operations. The principal operating revenue for the Company is fee income. Operating expenses may include income or loss from the investment in limited liability companies, management fees, compliance fees, success fees, professional fees and miscellaneous administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Recent Accounting Pronouncements

In February 2010, the FASB amended its guidance on subsequent events for entities that are not Securities and Exchange Commission (SEC) filers to disclose the date that the financial statements were available to be issued. This amendment was effective immediately. See note 5 regarding the date through which subsequent events have been evaluated.

NOTE 2 - RELATED PARTY TRANSACTIONS

Asset Management Fee Income

In accordance with the operating agreement of Fund I, the Company earns an annual asset management fee in the amount of \$11,639 for services provided to Fund I. For the period ended December 31, 2010, such fees earned were \$3,168, which is included in accounts receivable as of December 31, 2010.

East Baton Rouge Community Development Entity LLC

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Fee Income

The Company earned and was paid a fee from COCRF Investor I, LLC in the amount of \$366,000 as compensation for services related to the NMTC suballocation to Fund I.

In accordance with the operating agreement of Fund I, the Company earned and was paid a Suballocation Purchase Fee in the amount of \$183,000 for the transfer of a portion of its NMTC allocation and ongoing asset management services to be provided to Fund I.

Asset Management Fee and Structuring Fee

In accordance with the management services agreement of the Company, the Company shall pay East Baton Rouge Redevelopment Authority a fee up to the amount of 15% of the NMTC Allocation subject to the available cash flow. As of December 31, 2010, \$400,000 of this fee has been paid. In accordance with the agreement eighty percent of the fee will be recognized as an expense in conjunction with the NMTC suballocation for services related to structuring the transaction. The remainder of the fee will be recognized over the NMTC compliance period of seven years. During the period ended December 31, 2010, asset management and structuring fees of \$3,100 and \$320,000, respectively, have been expensed. Prepaid asset management fees of \$76,900 remain as a prepaid expense.

Expense Reimbursement

The Company earned and was paid for certain expenses incurred in the amount of \$10,000 related to accounting expenses associated with Fund I.

East Baton Rouge Community Development Entity LLC  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 3 - INVESTMENT IN LIMITED LIABILITY COMPANY

The following is the summarized condensed and combined financial information of the Company's investment in Fund I as of December 31, 2010 and for the period April 5, 2010 (inception) through December 31, 2010:

SUMMARIZED BALANCE SHEET

ASSETS

Cash	\$ 837
Notes and accrued interest receivable	5,954,803
Intangible assets, net	<u>175,963</u>
Total assets	<u>\$ 6,131,603</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES	3,168
MEMBERS' EQUITY	<u>6,128,435</u>
Total liabilities and members' equity	<u>\$ 6,131,603</u>

SUMMARIZED STATEMENT OF OPERATIONS

Income	\$ 40,680
Operating expenses	<u>10,205</u>
Net income	<u>\$ 30,475</u>
Income allocated to the Company	<u>\$ 3</u>

East Baton Rouge Community Development Entity LLC  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 4 - CONTINGENCY

The Company's NMTC allocation is contingent on the Company maintaining compliance with applicable sections of 45D of IRC and its Allocation Agreement with the CDFI Fund. Failure to maintain compliance or to correct noncompliance within a specified time period could result in the CDFI Fund exercising its right to take certain actions against the Company as provided for in the Allocation Agreement. Failure to maintain compliance or to correct noncompliance within a specified time period could also result in recapture of previously claimed tax credits plus penalties and interest.

NOTE 5 - REISSUANCE OF FINANCIAL STATEMENTS

The original financial statement issued as of and for the period ended December 31, 2010, did not properly allocate the asset management and transactional structuring fees. The statements have been reissued to reflect the change.

The following schedule presents line items on the 2010 financial statements as of and for the period February 23, 2009 (inception) through December 31, 2010, as previously reported and as reissued:

	<u>As previously reported</u>	<u>Change</u>	<u>As reissued</u>
Prepaid expense	<u>\$ 384,501</u>	<u>\$ (307,601)</u>	<u>\$ 76,900</u>
Asset management fee expense	<u>\$ 15,499</u>	<u>\$ (12,399)</u>	<u>\$ 3,100</u>
Structuring fee expense	<u>\$ -</u>	<u>\$ 320,000</u>	<u>\$ 320,000</u>
Members' equity	<u>\$ 406,474</u>	<u>\$ (307,601)</u>	<u>\$ 98,873</u>

East Baton Rouge Community Development Entity LLC  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 6 - SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes. Management evaluated the activity of the Company through June 22, 2011 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members  
East Baton Rouge Community Development Entity LLC

We have audited the financial statements of the East Baton Rouge Community Development Entity LLC, as of December 31, 2010 and for the period February 23, 2009 (inception) through December 31, 2010, and have issued our report thereon dated June 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered East Baton Rouge Community Development Entity LLC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Baton Rouge Community Development Entity LLC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the East Baton Rouge Community Development Entity LLC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Baton Rouge Community Development Entity LLC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Company's members, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Reznick Group, P.C.*

Baltimore, Maryland  
June 22, 2011